

**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWEN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the Owen County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$7,018 from the prior year, resulting in excess fees of \$29,304 as of December 31, 2007. Revenues increased by \$28,826 from the prior year and expenditures increased by \$35,844.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Cash Disbursements
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

#### **Deposits:**

The Sheriff's deposits as of December 31, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured     \$15,796



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. O'Banion, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Owen County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2008, on our consideration of the Owen County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable William P. O'Banion, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Cash Disbursements
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Owen County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 8, 2008



OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$	1,465
State - Kentucky Law Enforcement Foundation Program Fund			12,989
State Fees For Services:			
Finance and Administration Cabinet	\$	3,990	
Sheriff Security Service		<u>7,793</u>	11,783
Circuit Court Clerk:			
Fines and Fees Collected			6,205
County Clerk - Delinquent Taxes			5,183
Commission On Taxes Collected			174,247
Fees Collected For Services:			
Auto Inspections		2,890	
Accident and Police Reports		207	
Serving Papers		20,960	
Carrying Concealed Deadly Weapon Permits		<u>2,320</u>	26,377
Other:			
Tax Penalty		27,889	
Miscellaneous		<u>2,332</u>	30,221
Interest Earned			4,669
Borrowed Money:			
State Advancement			<u>59,361</u>
Total Revenues		\$	<u>332,500</u>

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY  
 ZEMER HAMMOND, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2007  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	77,093
Other Salaries		1,465
KLEFPF		14,189

Contracted Services-

Advertising		1,802
Vehicle Maintenance and Repairs		7,475

Materials and Supplies-

Office Materials and Supplies		9,066
Uniforms		2,141

Auto Expense-

Gasoline		20,282
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Other Charges-

Conventions and Travel		1,596
Dues		20
Postage		4,568
Prisoner Transport		640
Computer		1,963
Carrying Concealed Deadly Weapon Permits		1,413
Miscellaneous		737
		<u>737</u>
	\$	144,450

Capital Outlay-

Vehicles		24,957
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Debt Service:

State Advancement		<u>59,361</u>
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Total Expenditures		228,768
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Less: Disallowed Expenditures -

Sales Tax and Finance Charges		<u>(77)</u>
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Total Allowable Expenditures	\$	<u>228,691</u>
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The accompanying notes are an integral part of this financial statement.

OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Net Revenues	\$ 103,809
Less: Statutory Maximum	<u>71,118</u>
Excess Fees	32,691
Less: Training Incentive Benefit	<u>3,387</u>
Excess Fees Due County for 2007	29,304
Payment to Fiscal Court - February 11, 2008	<u>29,227</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 77</u></u>

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2007  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Owen County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Owen County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 31, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$15,796

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Drug Account

The Sheriff's Office maintains a drug account that is used to account for drug seizures and subsequent expenditures. The balance at the beginning of year was \$3,439. Receipts for 2007 totaled \$3,990 and expenditures totaled \$4,503. The balance as of December 31, 2007 was \$2,926.

Note 5. Grant Account

The Sheriff's office receives a reimbursement grant from the federal government for overtime. The purpose of the grant is for marijuana eradication. The Sheriff's office received \$1,465 under this grant during 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. O'Banion, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Owen County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated May 8, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

The Owen County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Owen County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 8, 2008

## COMMENTS AND RECOMMENDATIONS



OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On December 31, 2007, \$15,796 of the Sheriff's deposits of public funds were uncollateralized and uninsured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: From now on when the Fee account goes over \$100,000 we will have a signed with Farmers Bank for security bonds.*

Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

During our review of receipts, we noted receipts were not being batched, posted to a daily checkout sheet and deposited daily. The Department for Local Government (DLG) has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution" (KRS 68.210). We recommend the Sheriff implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and deposited within three business days in order to meet the requirements established by DLG.

*Sheriff's Response: In the future there will be a deposit at least 2 a week or when we have \$500 or more in the safe for fee.*

OWEN COUNTY  
 ZEMER HAMMOND, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2007  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

During our audit, we found that sales tax and finance charges, which are both unallowable expenditures, were paid on some purchases of the Sheriff's office. In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

The Sheriff should have expended public funds only for allowable purposes. We recommend the Sheriff deposit personal funds in the amount of \$77 into the 2007 fee account in order to reimburse the fee account for these expenditures. We also recommend the Sheriff use the tax exemption number assigned to the office for all purchases.

*Sheriff's Response: We will try to correct this problem in the near future.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Disbursements

During our review of the Sheriff's internal controls, we noted the lack of adequate segregation of duties over cash receipts and disbursements. A deputy clerk is responsible for preparing the daily checkout sheets, posting collection totals to the receipts ledger, preparing deposits, and reconciling the bank account. In addition, the same clerk is also responsible for bill payment and posting disbursements to the ledger. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. We recommend the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

- The Sheriff or another employee should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The review should be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff or another employee should periodically, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The review should be documented by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff or another employee should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The reviews should be documented by initialing and dating the quarterly report.
- The Sheriff or another employee should periodically compare invoices to payments. The review should be documented by initialing and dating the invoices.

*Sheriff's Response: In the near future I Sheriff Hammond will have another Deputy Clerk check the deposits and disbursements.*

